

Fiscal Services Division Legislative Services Agency Fiscal Note

HF 2532 - Public Pension, Substantive Changes (LSB 5334 HV)
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Fiscal Note Version - New

Description

House File 2532 makes substantive changes to the Iowa Public Employees' Retirement System (IPERS) and the Iowa Judicial Retirement System. This Fiscal Note will examine the substantive changes with a significant cost.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)

The Bill increases the required contribution rate from regular IPERS members by 0.50% to 4.20% in FY 2005 and 0.50% to 4.70% in FY 2006. The Bill further permits the IPERS to adjust the contribution rates beginning in FY 2007 with the employer paying 50.0% and the employee paying 50.0% above the base amount. The base amount will be 5.75% for employers and 4.70% for employees, with a combined base rate of 10.45%.

The IPERS will adjust the rates for the following year; if the prior years combined contributions will be insufficient to amortize the unfunded actuarial liability of the System within 30 years by increasing the total contribution to a rate that will amortize the unfunded actuarial liability of the System within 30 years. However, the combined rate will not be increased by more than 1.00% over the prior year and will never be below the base amount.

The IPERS will adjust the rates for the following year; if the prior years combined contributions will be sufficient to amortize the unfunded actuarial liability of the System within 10 years, or less, by reducing the prior years combined contributions by 1.00%. However, the rate will not be lowered below the rate needed to amortize the unfunded actuarial liability of the System within 10 years, or below the normal cost rate for the System plus 0.75%. The normal cost rate for the system in FY 2003 was 9.06%.

The Bill makes numerous technical changes in order to establish a separate class of IPERS membership for the sheriffs and sheriffs' deputies apart from airport firefighters. Airport firefighters are placed in the Protection Occupation class.

The Bill permits sheriffs and sheriffs' deputies to retire at the age of 50, instead of the current age of 55. The Bill further provides for a change in the distribution of contributions between employers and employees. Each employer and employee will contribute 50.0% of the actuarially determined cost above the base amount. Currently the employer pays 60.0% and the employee contributes 40.0%. The base amount is 5.75% for employers and 3.70% for employees.

The Bill reduces from the current four months to one month; the time a licensed health care professional at a public hospital must leave covered employment in order to continue to receive a retirement benefit after returning to covered employment. This change is only effective for retirements during FY 2005 and FY 2006. A study and report is being requested to determine the impact of this change.

The Bill requires three studies:

- Pension Flexibility Study.
- Protection Occupation Membership Study.
- Licensed Health Care Professionals - Bona Fide Retirement Report.

Assumptions

1. A 4.00% annual payroll growth is assumed.
2. Contribution rates will only be impacted by the changes in the Bill.
3. The number of members in each class and covered payroll for FY 2004 are as follows:

<u>EMPLOYER</u>	<u>MEMBERSHIP CLASS</u>	<u>MEMBERS</u>	<u>FY 2004 COVERED PAYROLL (\$ in millions)</u>	
State	Regular	22,298	\$	978.3
Counties	Regular	25,060		724.3
Cities	Regular	23,307		607.3
Schools	Regular	84,906		2,407.0
Other	Regular	8,901		281.7
Total		<u>164,472</u>	<u>\$</u>	<u>4,998.6</u>
State	Airport Firefighters	57	\$	2.5
Counties/ Cities	Sheriffs/Sheriffs' Deputies	1,555	\$	70.9

4. The number of members in each class will remain constant.
5. Regular IPERS members currently contribute 3.70% of covered wage and employers contribute 5.75%.
6. A combined regular IPERS contribution of 10.45% in FY 2007 will be insufficient to amortize the unfunded actuarial liability of the System within 30 years.
7. Sheriffs and sheriffs' deputies and airport firefighters members would contribute 5.10% of covered wage and employers would contribute 7.66% in FY 2005, without the changes in this Bill.
8. Protection Occupation members would contribute 6.16% of covered wage and employers would contribute 9.23% in FY 2005, without the changes in this Bill.
9. The retirement rate for employees ages 50 through 54 is 30.0% for sheriffs and sheriffs' deputies.
10. The employer contribution for sheriffs and sheriffs' deputies will increase by 1.78% (a decrease of 0.255% due to the change in the contribution percentages and an increase of 2.035% due to the benefit enhancement) to 9.44%.
11. The employee contributions for sheriffs and sheriffs' deputies will increase by 2.29% (an increase of 0.255% due to the change in the contribution percentages and an increase of 2.035% due to the benefit enhancement) to 7.39%.

Fiscal Impact

Regular IPERS employers' contribution will increase from 5.75% to 6.25% of covered wage beginning in FY 2007. The increased required by employer contributions is as follows:

- State - \$5.5 million.
- Counties - \$4.1 million.
- Cities - \$3.4 million.
- Schools - \$13.5 million.
- Other employers including townships, multi-unit employers, and utilities - \$1.6 million.
- Total employer increase - \$28.1 million.

Regular IPERS employees' contributions will increase from 3.70% to 4.20% of covered wage in FY 2005, to 4.70% in FY 2006, and to 5.20% in FY 2007. The total required increase for employees from one year to the next is as follows:

- State - an increase of \$5.1 million in FY 2005, \$5.5 million in FY 2006, and \$5.9 million in FY 2007. The average annual contribution by each employee will range from an increase of \$228 in FY 2005 to an accumulative increase of \$740 in FY 2007.
- Counties - an increase of \$3.8 million in FY 2005, \$4.0 million in FY 2006, and \$4.4 million in FY 2007. The average annual contribution by each employee will range from an increase of \$150 in FY 2005 to an accumulative increase of \$488 in FY 2007.
- Cities - an increase of \$3.2 million in FY 2005, \$3.4 million in FY 2006, and \$3.6 million in FY 2007. The average annual contribution by each employee will range from an increase of \$136 in FY 2005 to an accumulative increase of \$440 in FY 2007.
- Schools - an increase of \$12.5 million in FY 2005, \$13.5 million in FY 2006, and \$14.6 million in FY 2007. The average annual contribution by each employee will range from an increase of \$147 in FY 2005 to an accumulative increase of \$478 in FY 2007.
- Other employers including townships, multi-unit employers, and utilities - an increase of \$1.5 million in FY 2005, \$1.5 million in FY 2006, and \$1.8 million in FY 2007. The average annual contribution by each employee will range from an increase of \$165 in FY 2005 to an accumulative increase of \$534 in FY 2007.
- Total employee increase - \$26.0 million in FY 2005, \$28.1 million in FY 2006, and \$30.2 million in FY 2007. The average annual contribution by each employee will range from an increase of \$158 in FY 2005 to an accumulative increase of \$513 in FY 2007.

Placing the airport firefighters in the Protection Occupation class will result in the following contribution changes: The combined employer and employee rate will increase from 12.76% to 15.39% of covered wage for FY 2005. The employer will pay 9.23%, an increase of 1.57% or a total State increase of \$41,000 for all airport firefighters. The employees will pay 6.16%, an increase of 1.06% or \$28,000 for all airport firefighter employees. The average employee will contribute an estimated additional \$500 in FY 2005.

Changing the retirement age for sheriffs and sheriffs' deputies and the distribution of the contributions between employers and employees will result in the following contribution changes: The combined employer and employee rate will increase from 12.76% to 16.83% of covered wage for FY 2005. The employer will pay 9.44%, an increase of 1.78% or \$1.3 million, and the employees will pay 7.39%, an increase of 2.29% or \$1.7 million. The average employee will contribute an estimated additional \$1,100 in FY 2005.

The fiscal impact of the change for licensed health care professional on employers and employees cannot be determined without knowing, the size of the group, their covered payroll, and which employees would take advantage of the program. A study of this group is requested in this Bill.

The cost of the three studies is as follows:

- Pension Flexibility Study will cost \$26,000.
- Protection Occupation Membership Study will cost \$5,100.
- Licensed Health Care Professionals - Bona Fide Retirement Report will cost \$17,000.

JUDICIAL RETIREMENT SYSTEM

The Bill makes two changes to the Judicial Retirement System.

The Bill reduces the vesting requirement from six years to four years. When a judge becomes vested, the judge is eligible to obtain a retirement annuity rather than the return of the judge's contribution.

The Bill also reduces the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years.

Fiscal Impact

An actuarial study of these changes has not yet been completed, therefore, the fiscal impact is undetermined at this time.

Sources

Iowa Public Employees' Retirement System (IPERS)
Milliman USA Consultants and Actuaries
Iowa Judicial Retirement System

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
